

Congress of the United States
Washington, DC 20515

February 26, 2004

The Honorable Arnold Schwarzenegger
Governor, State of California
State Capitol Building
Sacramento, CA 95814

Dear Governor Schwarzenegger:

As members of the California Congressional Delegation, we are writing with serious concerns about the potential impact of the Administration's FY05 budget proposal on California. We regret that schedules did not allow for all of us to meet this week while you were in D.C. to discuss these concerns in person.

It is estimated that California could be shortchanged more than \$20 billion if the budget proposal is enacted. With your emphasis on increasing the collection of federal funds for California, we are certain that you must share our concern about the Administration's FY05 budget proposal.

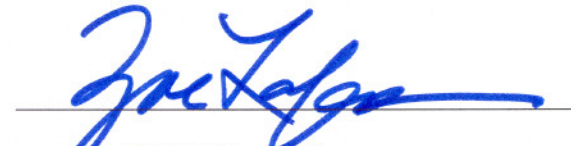
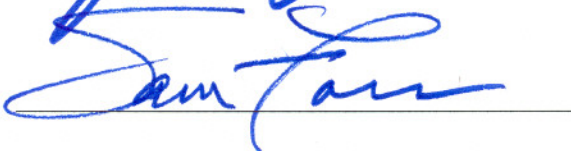
We are all well aware that the state's dire financial situation is already threatening many state-run programs and services that Californians depend upon. However, the state's budget shortfall will worsen if the funding cuts proposed in the Administration's budget proposal become reality.


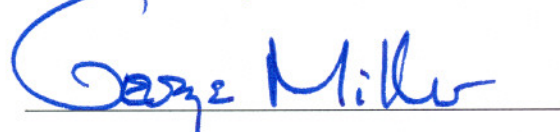
Attached you will find information on areas where our state is being shortchanged through programs being eliminated, funding levels cut, programs being under funded, or other budget areas of concern. While this list is not all-inclusive, it represents areas in which our combined efforts can pay off for California in a significant way.

There is no doubt that federal resources will be tight this year. But, we cannot afford to be passive in our response to the budget proposal. We must unite during the upcoming FY05 appropriations process to change these policy and funding situations in ways that will best benefit all Californians.

We urge you to join us as we work to get California its fair share of federal funding.

Sincerely,

Mike Shampson

Tom Lantos

Marine Waters

Zoi Capps

Barbara Lee

Louella Smolkey

Di Cery

Joe Bawa

Anna Eshoo

Susan D. Davis

James B. ...

Bob Filner

Diana E. Watson

Lucille Roybal-Allard

Ben O. Wapman

Hilda L. Solis

Janet ...

Linda E. Sanchez

Carl B. Schiff
The Stark

Jane Harman

Robert M. ...

Howard P. ...

Al Dooly

Lynn Woolsey

Grace J. Kaplitauro

Mich (M. Hard)

Ellen Fausch

Brad Shem

FY005 budget letter to Governor Schwarzenegger
February 26, 2004
Attachment

EDUCATION

- **Elementary and Secondary Education:** The budget proposal shortchanged the No Child Left Behind Act (NCLB) authorization level by \$9.4 billion in FY05. Since NCLB was signed into law, it has been under funded \$26.5 billion, or 21.7%. For FY05, this means California is shortchanged approximately \$700 million for elementary and secondary education than was promised when NCLB passed.
- **Vocational/Adult education programs:** The budget slashes \$500 million from this program, which would shortchange California's local vocational and adult education programs approximately \$50 million.
- **Retired Teachers:** The Bush Administration proposal does not provide any funds for an installment payment for the Congressionally-authorized sale of the Elk Hills Naval Petroleum Reserve. However, the budget does contain language seeking a revision to the payment agreement. This could mean a delay in the California State Teachers Retirement System (CalSTRS) receiving up to \$72 million it's still due under the original sales terms.

ENERGY / ENVIRONMENT

- **Energy Refunds:** Californians have been waiting almost four years for \$9 billion in refunds from the energy companies that gouged our state during the energy crisis. Yet this issue was not made a priority in the Administration's budget proposal nor was FERC directed to have the appropriate energy companies pay Californians these refunds promptly.
- **Leaking Underground Storage Tank (LUST) trust fund:** The LUST trust fund will collect nearly \$197 million this year and have a balance of \$2.371 billion by the end of FY05. Yet, the Administration only requested \$73 million - \$3 million less than FY04 funding - for this EPA program that cleans up MTBE contamination and other releases from leaking underground storage tanks. California receives nearly \$5.5 million annually in LUST funds. Without additional federal assistance Californians will have to pay to clean up the confirmed 16,000 leaks from underground storage tanks, many of which have contaminated or closed important drinking water supplies.
- **Clean Water:** There is a 37% cut in the budget proposal for clean water funding nationwide, which means \$35 million less for California. In particular, it eliminates a \$10 million joint EPA/NOAA program that funds state and local government efforts to combat "non-point (source) pollution," which is the leading cause of water quality degradation to coastal waters. California receives the maximum award allowed for states and the loss of this funding means the state will have to pick up these costs.

HEALTH CARE

- **Medicaid:** There is language in the budget proposal that program experts believe could mean significant restrictions on the ability to use “intergovernmental transfers” (IGTs) to fund Medicaid programs. Budget experts are also trying to determine how this would affect the Upper Payment Limit (UPL) program, which maximizes federal funding toward Medi-Cal services. Any efforts to curb IGTs and/or lower UPL will require the state and our safety net hospitals to take on additional financial responsibility in order to continue providing care to California’s six million uninsured.

In addition, the budget does not propose to continue last year’s increase in the federal funds matching program (FMAP) to support the state’s Medi-Cal program. While California has been at the minimum FMAP level (50%) since inception, the enhanced FMAP provided California approximately \$1 billion in additional federal funds. Returning the FMAP to 50% will cost California more than \$730 million in the upcoming fiscal year.

- **Undocumented immigrants’ health care costs:** The President’s budget acknowledges this recently enacted program to help reimburse states for emergency medical services for undocumented immigrants at \$250 million per year nationwide. However, at this funding level California loses more than \$500 million a year as the state spends approximately \$600 million annually on these services.

HOMELAND SECURITY

- **First Responders:** The Department of Homeland Security’s budget is slashed more than 14%, to \$3.6 billion, for first responder funding. This overall cut includes a 36.5% reduction (\$821 million) in the formula-based grants that could translate to a \$74 million loss for California. The Administration budget also eliminates DHS funding for interoperable communication grants, a reduction of \$85 million from FY04. Without an adjustment to the formula funding and reinstatement of the communication grants, the state and local communities will have to shoulder more of the costs to adequately protect Californians from threats of terrorism and standard emergencies.
- **Port Security Grants:** The budget proposal includes a \$79 million (63.2 %) cut for grants to port authorities for security upgrades, including installation of fencing, surveillance technologies, and other measures needed to prevent terrorists from gaining access to California docks and other port facilities. Also, the grants made to date have not recognized the large volume of containers passing through California’s ports, especially Los Angeles and Long Beach, and the potential danger they pose to the ports and communities through which the containers are transported.
- **FIRE grants:** The Bush Administration is proposing to cut \$250 million from this program, bringing its overall budget down to \$500 million. This would mean a reduction of approximately \$10 million for California. These popular grants help California municipalities buy fire trucks, protective clothing, breathing apparatus, water tanks and other equipment for their first responders.

LOCAL GOVERNMENTS

- **State Criminal Alien Assistance Program (SCAAP):** The President eliminated this program, which reimburses state and local governments for the cost of incarcerating illegal criminal aliens. This would shortchange California approximately \$120 million.
- **Community Oriented Policing Services (COPS):** A \$660 million (87%) cut is proposed for FY05, which could shortchange California up to \$80 million in COPS funding. This grant program helps local law enforcement keep California communities safe by providing funds to hire police officers, and combat drug (methamphetamine) production and trafficking.
- **Economic Development Programs:** California communities would be left behind in their efforts to revitalize because the President's budget eliminates the Empowerment Zones' entire \$15 million budget. Fresno, Santa Ana, Los Angeles and the Desert communities have all been recent beneficiaries of this program.
- **Hetch Hetchy payments:** The President's budget includes a new \$8 million rental fee, to be charged to the San Francisco Public Utility Commission (SFPUC), for its use of the Hetch Hetchy reservoir in Yosemite National Park. This fee was proposed with no notice, no discussion, and no analysis. It would raise the cost of drinking water to all 2.4 million customers in San Francisco, Santa Clara, Alameda, and San Mateo counties. The SFPUC already pays several million dollars, including fees for security and watershed protection, to the National Park Service, and also provides in-kind support.
- **Child Support Penalty:** The State of California is currently out of compliance with federal requirements that each state implement a single statewide automated system. While implementation is underway and will be complete in 2008, California is subject to a federal penalty that has grown to \$200 million this year. The concern is that the state budget proposal will continue to pass one quarter of those federal penalties (\$52.1 million) to counties for payment, which results in reduced county staffing and lower child support collections.

SCIENCE

- **NASA:** While the budget includes a hefty increase in the NASA budget, it also could hurt one of California's premier research facilities, the NASA Ames Research Center. The operating budget at Ames is slated to be cut 22% (\$90 million), down to \$318 million.

TRANSPORTATION

- **TEA-21 reauthorization:** The Bush Administration's proposal – at \$256 billion – is unrealistically lower than the House and Senate proposals, and it provides no increase for federal-aid highway and transit programs over the next five years. This could shortchange California approximately \$10 billion dollars in highway and transit funding. At a time when 59% of California's urban highways are congested, and vehicle miles on California's roads increased 97% between 1980-2000, this is unacceptable.

In addition, a new \$1 billion/year highways formula program is proposed for "ready to go" projects to address congestion concerns. This program may wind up yielding a lesser return for California because funds would be distributed to states based on the Surface Transportation Program (STP) formula structure – where California's share of funds is 9.6% – rather than the existing congestion relief program (CMAQ) where California receives more than 20% of funds. If the Bush Administration's formula is enacted, it could shortchange California by more than \$100 million a year.

- **Amtrak / High Speed Rail:** The Bush Administration's budget proposal cuts Amtrak funding by \$434 million (35%) from FY04 levels, which could shortchange California approximately \$22 million. The proposal also ties future Amtrak funding to Congress enacting a plan that would privatize it and eliminate some long-distance routes. This would greatly degrade operations in California and affect more than 100,000 passengers who ride 60 intercity and over 300 commuter trains daily. The President's budget also makes a 63% reduction for the Next Generation High Speed Rail, which was budgeted at \$27 million in FY04.

In addition, your FY04-05 state budget contains proposals that will hamper California's ability to collect additional federal funding in FY05:

- **State Children's Health Insurance Program (SCHIP):** The President's budget adheres to the law authorizing SCHIP to provide a \$1 billion increase in FY05. California receives 16.8% of SCHIP funds -- a total of \$534 million for FY04. However, the state budget includes a proposal to freeze enrollment in Healthy Families, which means it is unlikely that California will be able to tap into its potential share (\$168 million) of additional FY05 SCHIP funding.
- **AIDS Drug Assistance Program (ADAP):** The Bush Administration is proposing a very small increase of \$31 million for ADAP (still \$100 million less than is needed to serve all eligible individuals nationwide). The immediate concern is that your state budget proposal has no increase for ADAP and as a result, enrollment in California may be capped for the first time. This means hundreds of individuals – in particular many low-income Californians with HIV/AIDS -- who are eligible for AIDS drug assistance will not be able to receive up to \$4 million in additional federal funding.